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July 22, 2011

TO: Jackie Contreras, Ph.D., Acting Director
Department of Children and Family Services

FROM: Wendy L. Watanabe *Wendy L. Watanabe*
Auditor-Controller

SUBJECT: **DEPARTMENT OF CHILDREN AND FAMILY SERVICES – REVIEW OF
REVOLVING FUNDS**

We have completed a review of the Department of Children and Family Services' (DCFS or Department) revolving funds. We conducted our review to ensure the Department has adequate internal controls over its revolving funds, and is complying with applicable County policies and procedures. Our review included surprise cash counts, staff interviews and reviews of accounting records and revolving funds transactions.

It should be noted that the revolving funds we reviewed in this report are separate from DCFS' trust accounts, such as the Youth Development Services Division's trust fund. We are reviewing DCFS' trust accounts in another audit and will report on those funds separately.

Background

DCFS' Bureau of Finance & Administration (Finance Bureau) is responsible for managing the Department's two revolving funds; the Children's Services fund (CS fund) and the Children's Services – Cash Aid fund (CS-Cash Aid fund), with assigned balances of \$129,000 and \$2,500, respectively. The funds are used to provide assistance to DCFS clients (e.g., rent and security deposits, household items, fees to obtain birth certificates, etc.), to make emergency vendor payments, and for other miscellaneous purposes.

The CS fund was divided into six separate sub-accounts, including a petty cash fund, with balances between \$6,000 and \$50,000. After our review, the Department consolidated the six sub-accounts into two sub-accounts. The CS-Cash Aid fund does not have sub-accounts.

Results of Review

Our review disclosed some areas where DCFS Finance Bureau needs to improve its controls over the revolving funds, and compliance with County fiscal policies. The following are the detailed results of our review.

Reconciliations and Outstanding Checks

The County Fiscal Manual (CFM) requires departments to reconcile each revolving account or sub-account to its assigned amount, and to resolve reconciling items (e.g., outstanding checks) timely.

We reviewed the Finance Bureau's reconciliations from July to December 2009 for each of the six CS fund sub-accounts and the CS-Cash Aid fund. We noted that four (67%) of the six CS fund sub-accounts were not properly reconciled, resulting in balances in some accounts that were significantly different from the accounts' assigned amounts. For example, one sub-account had an assigned amount of \$6,000, but the balance on the reconciliation was \$27,044.

The differences were generally the result of an accumulation of outstanding checks, and corresponding replenishment of the sub-accounts. For example, the sub-account discussed above had approximately \$19,800 in outstanding checks that were issued between 2001 and 2007. Because the Department had requested and received reimbursement for the checks that had not been cashed, the account exceeded its assigned balance.

Checks that have been outstanding for over 180 days are generally considered stale-dated, and staff should review the checks to determine if they should be cancelled. We noted that the DCFS Finance Bureau did not start canceling these checks until June 2009. Accurately completed reconciliations and timely follow-up on reconciling items would have helped prevent the accumulation of outstanding checks and the excessive balance. The Finance Bureau is currently working with the Auditor-Controller Accounting Division to resolve the excess fund balances.

Recommendations

DCFS Finance Bureau management:

1. **Ensure revolving funds are accurately reconciled to their assigned**

amounts, and reconciling items are resolved timely.

2. **Require staff to regularly review checks outstanding for more than 180 days to determine if they should be cancelled.**

Statement of Responsibility

CFM Section 1.6.3 requires departments to have a Statement of Responsibility for each fund/sub-assignment, which specifies the assigned amount and the current custodian of the fund or sub-account. Statements of Responsibility should be updated annually or whenever a fund custodian changes.

DCFS Finance Bureau did not have Statements of Responsibility for four (67%) of the six CS fund sub-accounts. As previously noted, the Department consolidated the six CS fund sub-accounts into two sub-accounts. We verified that management prepared Statements of Responsibility for the two consolidated sub-accounts.

Recommendation

3. **DCFS Finance Bureau management ensure all revolving fund custodians sign a Statement of Responsibility form annually, or whenever a fund custodian changes, and require Finance Bureau staff to keep copies of the completed forms.**

Blank Check Stock

CFM Section 4.6.9 requires departments to account for all checks, used and unused, at least monthly. We noted that DCFS' Finance Bureau does not maintain inventory records for their check stock (e.g., check stock received, issued, etc.). Instead, when staff issue a book of checks, they write the range of check numbers issued on the top of the check stock box, but do not indicate who took the checks or when. In addition, once the check stock is used, the box is disposed of, and no other records are maintained. Without sufficient controls over blank check stock, lost checks could go undetected.

Recommendations

DCFS Finance Bureau management:

4. **Ensure perpetual inventory records are maintained for check stock, including the names of individuals receiving books of checks.**
5. **Require someone with no other revolving fund responsibilities to reconcile check stock to the inventory records at least monthly.**

Safe Access

CFM Sections 1.1.3 and 1.1.4 require departments to keep revolving fund cash and blank/voided checks in a safe, locked drawer or locked cabinet at all times, and limit access to cash and checks to a few authorized individuals.

On three separate occasions, we noted that a safe in an employee's cubicle, which contained petty cash, the CS-Cash Aid fund, and blank check stock was left unlocked during the day, even when the employee was away from her workstation. Although the area is restricted to Finance Bureau staff, the safe should be locked whenever it is left unattended.

Recommendation

- 6. DCFS Finance Bureau management ensure staff lock safes whenever they are left unattended.**

Review of Report

We discussed the results of our review with DCFS Finance Bureau management. They agreed with our findings and recommendations, and indicated they will work to improve controls in these areas. The Finance Bureau's detailed response (attached) indicates the corrective actions taken to date.

We thank DCFS Finance Bureau management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:TK

Attachment

c: Audit Committee

Department of Children and Family Services Revolving Fund Review Corrective Action Plan and Status Update				
RECOMMENDATIONS		Tasks	Date	Status
1	Ensure revolving funds are accurately reconciled to their assigned amounts and reconciling items are resolved timely.	Accounts Payable Cash Management (APCM) staff to ensure accurate and timely reconciliation of monthly bank statements and revolving fund checking accounts.	1/3/2011	Completed and ongoing (monthly). A 100% reconciliation was completed on all revolving fund checking accounts.
		APCM staff to identify reconciliation balances that are different from the assigned checking account amounts and provide to the Supervisor/Manager for review and resolution within 30 days.	1/3/2011	Implemented. The reimbursement expense claim was reviewed; and a reconciliation of the deposits, replenishment and outstanding check amounts was completed to determine the authorized assigned sub-account amounts vs. the excess dollar amount. On 2/9/11, APCM manager and A-C met specifically to determine appropriate actions to be taken regarding the elimination of the accumulation of excess funds in the sub-accounts.
2	Require staff to regularly review checks outstanding for more than 180 days to determine the reason for their outstanding status and cancel them timely as necessary.	DCFS Internal Controls to conduct random audits to ensure sub-accounts are properly reconciled.	9/1/2011	On target.
		APCM staff to monthly review and reconcile bank statement and issued warrant ledger to determine outstanding checks over 90 days.	1/3/2011	Implemented and ongoing.
3	DCFS management ensure all revolving fund custodians sign a Statement of Responsibility form annually, or whenever a fund custodian changes, and require Finance Bureau staff to maintain copies of the completed forms.	APCM staff to identify and determine reason for checks that have not cleared the bank within 90 days and refer to Supervisor for cancellation as appropriate.	4/11/2011	Implemented and ongoing.
		APCM staff to verify a Statement of Responsibility form from the custodians of the four identified accounts.	4/30/2010	Completed. A copy of the on file approved/signed forms were given to the auditors during the A-C review process.
4 & 5	Ensure perpetual inventory records are maintained for check stock, and that records include the names of individuals taking blank checks. Require someone without any other revolving fund responsibilities to reconcile check stock to inventory records at least monthly.	APCM staff to annually verify and ensure a copy of the Statement of Responsibility form is on file for all revolving fund for current custodians.	7/1/2010	Implemented and ongoing.
		APCM staff to develop and maintain a perpetual check stock inventory log which includes the name of the person receiving the blank checks, identify a responsible employee to disburse the checks.	4/16/2010	Completed. During the review process, the check stock inventory log was developed for immediate implementation and staff were instructed to begin utilize accordingly.
6	Ensure staff lock safes whenever the safes are left unattended.	AP Manager to assign an employee, with no revolving fund responsibilities, to review and reconcile monthly check stock to inventory record.	5/2/2011	Implemented.
		AP Manager to reinforce expectation for compliance with CFM 1.1.3 and 1.1.4 regarding security of safe access with staff.	4/26/2010	Completed during A-C review process.

